

Quota Review Committee Meeting Notes

June 18, 2007
Sacramento, California

MEMBERS PRESENT

Ann Silva - Chair
Domenic Carinalli
Ben Curti
Frank Konyn, Jr.
Steve Maddox
Brad Scott
Pete Vander Poel
Ray Veldhuis
Dennis Leondardi
Richard Shehadey

DEPARTMENTAL STAFF PRESENT

George Gomes, Undersecretary
Kelly Krug, Director
Jeff Cesca
John Lee
Dave Ikari
Donald Shippelhoute
Candace Gates
Steven Donaldson

Jim Morgan, Strategy Dynamics

MEMBERS ABSENT: Frank Faria

PUBLIC GUESTS IN ATTENDANCE

Ana Borba
Tessa Curti
Glenn Gleason
Mike Griffin
Jim Gruebele
John Kaczor
Tiffany LaMendola

George McClelland
Francis Pacheco
Bill Schiek
Larry Serpa
Scott Shehadey
Bill Van Dam
Hank Van Exel

Opening: The Chair, Ann Silva, opened the meeting at 10:00 a.m. thanking the Quota Review Committee (QRC) for their return. Ms. Silva began the meeting with refreshing everyone with the purpose and then summarized the previous meeting where options 1 and 2 were discussed – both pro and con of each. One of the goals of this meeting was to study option 3 which the QRC was not able to address at the previous meeting. The options are as follows:

- Option #1: Should the existing quota system continue without change?
- Option #2: Should the quota system be modified?
- Option #3: Should quota be retired?

Ms. Silva indicated that Mr. Faria was unable to attend, but wished to follow through on his assignment by the next meeting.

As with the previous meeting Ms. Silva indicated that the facilitation portion of the meeting was QRC members input only. However, members of the public would be allowed to make comments for a period of time no longer than three minutes at the end.

Facilitation: Ms. Silva then turned the meeting over to facilitator Jim Morgan, who briefly discussed the meeting packet. A majority of the homework assignments were in the packet. However due to time constraints some assignments did not make it in and therefore would be handed out separately.

Review of QRC Goal: Mr. Morgan started the meeting with revisiting the QRC Goal (See Page 3 of the Packet). Reaching this goal (Part 1 of a two step process) was set for August 1, 2007. After that goal, Part 2 would begin. It would then be for the QRC to determine whether or not they were the appropriate body to continue on or to turn that over to other individuals or groups to deal with. Regarding Part 2, members saw problems with addressing this issue should a legislative change be necessary. Continual turnover in the State Legislature has resulted in loss of knowledge about the dairy industry. The Chair indicated that the QRC should not get overwhelmed by Part 2 of the process at this time.

Informal Comments: The QRC reviewed and discussed the informal comments on page 4 of the packet. Various industry statements were clarified or expanded upon. The revised packet will reflect the changes.

Decision Process: Mr. Morgan then led a discussion regarding what decision method was desired by the QRC (unanimous, super majority, or only a majority). The QRC determined that 8 out of the 11 QRC members (or super majority) would be used in making decisions.

Data Analysis and Information: Donald Shippelhouse, Senior Agricultural Economist with the California Department of Food and Agriculture's Milk Pooling Branch, reviewed various data sets beginning on Page 5 of the Packet which compared the Historic \$1.70 spread to that of Historic Formulas using the Variable Spread and Current Formulas using the Variable Spread. Discussion ensued regarding the data.

The following documents (not included with the packet) were discussed:

- **“Overbase Price Increase with Uniform Blend Price VS. \$1.70 Fixed Differential Using November 2006 through April 2007 Daily Production and Current Quota Holdings.”** - The charts on this page illustrate what happens to the Overbase price if Quota is done away with. As production increases, there is an indication that there are decreasing dollars for the Overbase production.
- **“Pool Prices Using Current Class Price Formulas with Varying RQA Rates”** - This analysis was done for the years between 2002 through April 2007 and compares Historic Regional Quota Adjuster (RQA) dollars, to that of a uniform rates of \$0.27 and \$0.30 and to prices if there was no RQA. RQA takes dollars from Quota holders (as opposed to the

Overbase dollars) to help fund the \$1.70 spread. It was indicated that, as a result of dairies moving out of Southern California into the Valley, more RQA monies would be available to help fund the \$1.70 spread.

- **“Change in Percent of Production Covered by Quota Due to 10% Production Increase On All Farms”** - This document used April 2007 as a base and illustrates how a 10 % increase in production by all farms will decrease the percentage segments of production covered by quota.
- **“Impact to the Pool for Every CWT of Class 1 Sales Lost to Out-of-State Supplier”** - This chart assumed that displaced California milk originally destined for Class 1 usage is instead utilized in butter and powder production (or Class 4A).
- An amortization chart was shared with the QRC which illustrated the pay off costs associated with buying out quota.
- The QRC then reviewed extract from the California Food and Agricultural Code dealing with different pool referenda associated with introducing amendments under the Gonsalves Act as related to: Regional Quota Adjusters (RQA), the Pooling Plan, abolishment of the Pooling Plan, and to the \$1.70CWT spread between Quota and overbase prices.

Homework Assignments: From the previous meeting, QRC members had been assigned homework assignments. Page 7 lists the positive factor assignments related to Option #1 (Should the existing quota system continue without change?) Individual members were assigned Sections 3.1 through 3.8 with details addressed for each assignment beginning on page 8 and continuing through page 20. After a discussion of each section, consensus conclusions were reached. The revised packets will reflect those conclusions.

Visitor Comments: Following the conclusion of Section 3, the Chair opened the floor to industry comments and questions.

A visitor asked a clarifying question related to the term Producer Distributor (PD) used throughout the document. He pointed to Page 3, Exhibit 1: QRC Goals from Jim Morgan's packet. It was determined that the term Producer should only have been used. The revised packet will reflect the changes.

Negative factor assignments were addressed in section 4.1 through 4.10 starting on page 22 of the packet. One member was unable to attend and therefore Sections 4.1 and 4.8 were not addressed but would be discussed at the next scheduled meeting.

Due to time constraints, all of Section 5 dealing with modifying quota was not covered and would be deferred to the next meeting.

Visitor Comments: Another visitor addressed that the QRC should use a majority vote rather than a super majority vote when making its determinations. This would help provide a better consensus among those individuals who may be on the fence related to an issue and would therefore be more inclined to vote with the majority. Whereas, a super majority is more likely to polarize the group during the decision making process.

Goal Timeline and Next Meetings: The remainder of the meeting dealt with modifying the timeline goal. It was apparent that delivering an August 1 recommendation to the Secretary would not be met. It was determined that mid-August would be the new target date. In addition to the July 13 meeting (beginning at 9:30 am at the California Farm Bureau), two more meetings were scheduled and are as follows:

July 27, 2007 – Location to be determined

August 9, 2007 – Location to be determined

At the close of the meeting, QRC members were distributed travel claims.

The meeting adjourned at 3:10 p.m.

Original Signed By

John Lee, Chief
Milk Pooling Branch